NIO – Citron Pulls the Plug on NIO – 2 Years After Our Controversial Recommendation

Price Target $25

Two years ago, NIO was trading at just $7 when Citron recommended buying the stock as the company and its charismatic leader William Li intrigued us. After a rocky road of trading, NIO has found itself in unchartered territory that can never be justified by its current standing in the China EV market or its near-term prospects.

https://www.benzinga.com/analyst-ratings/analyst-color/18/11/12724825/citron-research-nio-is-tesla-deja-vu

The recent mania of investors flocking to electric car makers in China shows no deeper understanding of a market that is marked by price cuts. What makes NIO stock most vulnerable at these levels are 2 main points.

1 – Tesla Model Y China Pricing

Worse, anyone who is buying the stock has obviously not been paying attention to Tesla and the pricing of the Model Y in China. The brand cache of Tesla and its pricing has become a big problem for NIO's ES6 hatchback model.

Consider this, last week DB was guessing at what levels Model Y Tesla pricing would hurt NIO.

"We continue to see some risk that Tesla could materially cut the price of its locally made (MIC) Model Y from 488k RMB ($73k) to something in the mid- to high-300k range ($56-58k). This could potentially hurt near-term sentiment and slow NIO's order book momentum considering it would be a direct competitor to NIO's EC6 and ES6."

Well now local Chinese analysts are predicting that Tesla's Model Y will be priced substantially below the key price point that would be a threat to NIO according to DB.

"Recent estimates from securities firm Tianfeng Securities are pointing at something quite remarkable for Tesla's ongoing ramp in China. As noted by the firm in a recently-released research report, Tesla's strategy of passing its cost savings to customers could result in the Made-in-China Model Y starting at a very reasonable price of CN¥275,000 (about $41,000)."

https://www.teslarati.com/tesla-model-y-china-price-output-report/

This would validate the obvious statement made by Bloomberg:

"Another wave of price cuts for premium electric vehicles in China may be on the horizon, stirring up what could be an intense rivalry," Bloomberg Intelligence analysts led by Steve Man said in a Nov. 11 report.

To put things into perspective, let's look at valuation multiples.

NIO has acted as a great trading proxy for Tesla given the valuations have historically been highly correlated. However, there is now a massive disconnect with NIO trading at the largest premium to TSLA in history at double the valuation. On NTM EV/Sales, NIO is trading at 17-18x vs. TSLA at 9x.

Moreover, when Tesla was delivering a quarterly run-rate of 15K vehicles similar to NIO today, TSLA had 45% share of the US EV market while NIO faces significant competition today and has 3% share of the Chinese NEV market. **Last month, TSLA sold more than double the number of vehicles in China that NIO sold.**

The made in China Tesla Model Y is real and the pricing is compelling.

https://www.electrive.com/2020/11/06/tesla-model-y-made-in-china-on-the-horizon/

2 – Share structure

While we commend Baillie Gifford (love those people) and early investors, right now we are looking at a share structure and an investor base that is more interested in spinning a casino wheel. While the float is open after years of trading, the short interest is at almost a 2-year low.

Conclusion

Anyone buying NIO stock now is not buying a company or its prospects, rather you are buying 3 letters that move on a screen. The China electric phenomenon is a real movement BUT there are better ways to play it. Consider this – Buffett backed BYD did $22 bil in sales and trades at 3x sales even after being up 400% this year and at these levels NIO trades at more than 17X sales.

Obviously, we will not even discuss NIO profitability. It is time for investors to rotate out of NIO, enjoy your profits and look for the next disruptive technology.

Cautious Investing to All

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